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More Colleges Consider Adding 'Gift Tax' to New Donations

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A growing number of colleges are considering fees on new donations, in an effort to make up for a decline in the revenue that helps pay for fund-raising operations.

Gift fees, or a "gift tax," as they are sometimes called, are not a new idea, but institutional discussions about them are becoming more common because of the worsening economic situation, administrators and fund-raising consultants say. They predict that more colleges will chose to deduct gift fees from new donations in the near future.

The one-time fees, which typically range from 3 to 5 percent of the gift, are more common at public institutions with associated foundations—which do the colleges' primary fund raising—than at private colleges, many of which do their fund raising in-house.

The fees can be controversial with big donors who want 100 percent of their gifts to go to their intended purpose, as well as with deans and faculty members who want the full amount they've raised to go to their departments.

Last week the University of Connecticut Foundation said it would begin charging fees on new donations—3 percent on endowed gifts, 5 percent on other gifts—to counter the recent loss of about a quarter of the value of the university's endowment in the economic downturn. The foundation takes a set percentage from the endowment each year for managing the assets and uses it to help pay expenses.

In further efforts to make up revenue, the foundation also changed how its endowment-management fee is assessed and said it eliminated 12 positions in December.

The University of California at Los Angeles, which has a longtime policy of charging 5 percent on new gifts, said it would raise that fee to 6.5 percent in July and use the revenue for fund raising and alumni-relations expenses.

Bruce Flessner, a fund-raising consultant, says at least seven of his clients are considering gift fees. At a conference last month for development officers in the Big 12 Conference, gift fees were a major topic of discussion, he said. Several Big 12 universities are considering such fees to help pay for their fund-raising operations as state support and endowments decline.

Preferable to Job Cuts

According to a 2006 survey of higher-education foundations by the Council for Advancement and Support of Education, 19 percent of them charged one-time fees on new non-endowed gifts, and 16 percent imposed fees on new endowed gifts. Taking management fees on endowed funds was a more common way of generating revenue, with 68 percent of foundations doing so.

The gift fees may not amount to much if gifts are down. But for colleges trying to increase their fund raising, the fees are preferable to cutting back on development staff members, who could make a longer-term contribution to raising more money.

On the other hand, gift fees are "not ideal from a donor standpoint," says Donald M. Fellows, a fund-raising consultant. "You'd rather not have to have that conversation before they make the gift."

Colleges that have adopted or are considering adopting gift fees say they expect donors to understand the situation, once they explain the reasons behind the change and the need for the fees. They say major benefactors are sophisticated and understand the current economic environment and what it means for college finances.

Connecticut's foundation had few options to make up for the revenue shortfall, says David R. Vance, vice president for finance and controls. Without the fees, which will cover only about 5 percent of the foundation's budget, he said, more staff cuts would have been considered. The university plans to announce a fund-raising campaign this fall, a time when many colleges increase hiring of development-staff members.

The foundation's board was initially concerned with what donors would think of the new fees. "We're comfortable we're not going to have a big donor backlash," Mr. Vance says. "I think once we educate them, they'll be understanding."

An Easier Discussion

At the University of Missouri, which just completed a $1-billion campaign, discussions with deans are starting this week over possible gift fees and other ways to pay for fund-raising operations. During the campaign, the money came from the university's general budget, with the expectation that additional sources would be considered later. Now the development operation is looking for ways to cover more of its expenses itself, says David P. Housh, vice chancellor for development and alumni relations.

Among the possibilities are fees on new cash gifts in the range of 5 percent, and a 1-percent endowment-management fee. If those two fees were put into effect, and giving remained at the current level—not a certainty in this economy—they would pay for about half of the fund-raising office's $14-million budget and allow $7-million to go back into the general budget, Mr. Housh says.

Given the economic situation, he expects an easier discussion than might have been heard two or three years ago, in flush times. The university's supporters understand the need to free up more money in the general operating budget, he says.

Gift fees are not under discussion at the University of Kansas. But if revenue continues to decline significantly, and more institutions adopt such fees, the university would not rule them out, says Dale Seuferling, president of the KU Endowment.

The major concern with a gift fee is how it could affect donor relationships, Mr. Seuferling says. Kansas fund raisers "assure donors that every dollar they give goes to the purpose they contributed for," he says. "That is welcomed and perceived very positively by donors."